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SUBJECT: "TRNC" ANTI-MONEY LAUNDERING: THERE'S SOME WILL, BUT THEY
NEED A WAY

(U) This cable is sensitive but unclassified. Please protect
accordingly.

1.(SBU) Summary. A seminar sponsored by the European Commission brought experts from around Europe to address "TRNC officials" responsible for combating money laundering in northern Cyprus. The "TRNC" team was well-prepared and anxious to be cooperative while making plain that successful implementation of any new anti-money laundering regime depended on the passage of new "laws and regulations," considerable assistance for training staff and, especially, greater cooperation and information-sharing between their financial intelligence unit (once it is fully-formed) and those of other nations. The good news is that all parties, apparently including the Republic of Cyprus, recognize the growing problem in northern Cyprus, and seem anxious (at least at the highest working level) to find ways to deal with it in an apolitical manner. End Summary.

2.(SBU) In July 2007, the International Cooperation Review Group (ICRG) of the Financial Action Task Force (FATF, the inter-governmental body developing and promoting policies to combat money laundering and terrorist financing) completed an assessment of vulnerabilities within the anti-money laundering/counter terrorist financing (AML/CFT) regime in the "TRNC." It found that "the northern part of Cyprus lacks a financial intelligence Unit (FIU) as well as the legal and institutional framework to provide effective protection against the risks of money laundering and terrorist financing" and further stated that "these weaknesses pose a genuine threat to the global AML/CFT framework." Since the "TRNC" is not a FATF member, the European Commission took the role of "honest broker" and delivered the report to the "TRNC." Further, it sponsored a two-day seminar in northern Nicosia to discuss the report's recommendations, explain EU AML directives and best international practices, and urge the "TRNC" to respond to the report with an action plan.

"WE'RE SERIOUS, BUT WE NEED COOPERATION"

3.(SBU) Regulatory and criminal experts from the European Commission, UK, Netherlands and Sweden (with a US Treasury official observing) participated in the September 24-26 seminar. The "TRNC" side had 24 participants from the "Ministry of Finance," "Central Bank," "Public Prosecutor," "Customs," and police led by the "Undersecretary of Finance" and "Chairman of the Illicit Money and Supervision Board," Zeren Mungan. While the "TRNC" participants accepted that there are significant shortcomings in their AML/CFT capabilities, they objected to the report's "implications that we are not fighting the problem" and to the fact that the report was

written "without anyone actually ever talking to us." Mungan pointed to the successful closure of First Merchant Bank by the "TRNC" for AML violations as an indication that there is a will to combat the problem but that it is "an international problem that requires international cooperation," and due to the "TRNC's isolation, the necessary cooperation is often unavailable." This, he said, often results in insufficient evidence with which to pursue potential AML cases. "We should be represented at the FATF, under whatever name," Mungan argued, "to achieve practical results".

4.(SBU) After this preliminary statement of "TRNC" problems with the international community's approach, the seminar settled into a detailed discussion of current "TRNC law" and practice and their AML/CFT-related shortcomings. The "TRNC" participants parried all concerns by promising all shortcomings would be addressed in pending new "legislation and regulations" via specific bills covering proceeds of crime, casino oversight and updated banking "law." Among other things, new "laws and regulations" will reportedly make clear the relationship between listed predicate offenses and the offense of money laundering, improve confiscation capabilities, reduce the burden of proof necessary to obtain a conviction for money laundering and -- most importantly -- bring casinos, insurance companies and exchange bureaus (as well as real estate agencies, car and jewelry dealers and accountants) into the list of groups that will be responsible for reporting suspicious activities. The "TRNC" participants also promised broad "know your customer" requirements will be part of the new system.

OFF-SHORE BANKS TO GO?

5.(SBU) While on-shore banks will continue to be regulated by the "Central Bank" under the new regime, offshore banks will be regulated by the "Economy Ministry," and all other non-bank financial institutions (including casinos) will be regulated and monitored by the "Finance Ministry." (Note: The experts were concerned that this division of "regulatory" responsibility in such an under-resourced jurisdiction could create future shortcomings. End Note.)

6.(SBU) The European experts were concerned that the draft banking "legislation" does not apply to the off-shore banks and will be regulated by a body yet to be formed with "legislation" that is said to currently be under consideration by "Parliament" but was not presented to the seminar. Mungan noted that the number of off-shore banks has been reduced from 26 to 14 with another three "inactive" over the past two years and said, almost as an aside, "there is debate about whether the off-shore sector will be allowed to continue." He did not elaborate, although he did allude to the lack of profitability of these institutions.

AMBITIOUS TIMEFRAME

7.(SBU) Mungan repeatedly promised that the "TRNC" action plan responding to the FATF report would be ready in time for a FATF meeting the week of October 8. The foreign contingent stressed that any plan should not be a "check the box" exercise in response to the FATF report but a holistic explanation of how the "TRNC" plans to address AML issues both short- and long-term, and include detailed timelines, departments responsible for each action item and resource requirements. Mungan insisted that all this would be done despite the clear time constraints. He also promised that AML and casino "regulatory legislation" currently being reviewed by the "Attorney General" will be presented to the "Council of Ministers" by the end of October and be considered by "Parliament" by year-end. While Mungan would not guarantee passage of the "legislation," the fact that the opposition walked out of "Parliament" a year ago clearly made the "Undersecretary" fairly confident the "government" had the percentages in its favor. The experts stressed that "TRNC" credibility would be at risk if these timelines were reported to FATF but not met.

8.(SBU) Comment: As the ICRG noted in a recent report, "it would seem that the northern part of Cyprus is taking things seriously." We concur in many respects. The "TRNC" participants were engaged and prepared to answer the many difficult and often highly technical

questions posed to them. They consistently sought to improve their pending "legislation" based on what they learned at the seminar and understood the negative implications if they fail to improve the AML regime in the Turkish Cypriot-administered area. That said, it remains unclear how willing "President" Talat actually will be in making a final push for adoption of the draft legislation, which has been floating around the "TRNC" corridors for a year. Also, the resource constraints, especially in trained personnel, will clearly be a major factor in implementing changes foreseen in the pending "legislation." The "TRNC" officials are aware that they will need foreign assistance, especially in training and IT systems supply, if any new AML/CFT regime is to be successful. The ability of the "government" to create (and enforce) a new regulatory framework for casinos in the face of opposition from well-financed casino owners/operators will be a major test of the "TRNC's" political will to rein in money laundering activity.

9.(SBU) Comment continued: We were advised by Steve Darling, a Brit who headed the Commission delegation, that he would brief Eva Papakyriakou, the Greek Cypriot FIU chief, on the outcome of the seminar. Darling also advised that Mungan and Papakyriakou planned a dinner at a private residence in the north to talk about how the two sides might cooperate on AML issues (this was later confirmed to us by Papakyriakou). The fact that the GoC has not protested the seminar (despite being specifically uninvited by the "TRNC") could indicate they recognize that money laundering in the north is a problem for the whole island, and possible solutions should not be politicized. Pending the passage of the new "laws" in northern Cyprus, the UK intends to offer considerable training on AML and terrorist finance issues and will likely seek USG help in providing such assistance.

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